

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name St. Clair River Sewer & Water Authority		County St. Clair
Audit Date 12/31/05	Opinion Date 04/07/06	Date Accountant Report Submitted to State: 06/13/06		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

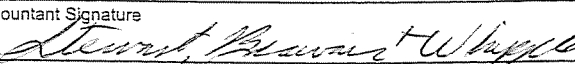
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC			
Street Address 1979 Holland Avenue	City Port Huron	State MI	ZIP 48060
Accountant Signature 			Date 06/13/06

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

**ANNUAL FINANCIAL REPORT
WITH
SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED
DECEMBER 31, 2005 AND 2004**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



ST. CLAIR RIVER SEWER AND WATER AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

To the St. Clair River Sewer and
Water Authority Board
St. Clair County, Michigan

We have audited the accompanying component unit financial statements of the St. Clair River Sewer and Water Authority as of December 31, 2005 and 2004 and for the years then ended, as listed in the Table of Contents. These financial statements are the responsibility of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.


We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements referred to above present fairly, in all material respects, the financial position of the St. Clair River Sewer and Water Authority as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated April 7, 2006, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements for the Authority. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information, except for the portion marked "Unaudited" on which we express no opinion has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

April 7, 2006

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

Management's Discussion and Analysis

Our discussion and analysis of the St. Clair River Sewer and Water Authority's financial statements provides an overview of the Authority's financial activities for the years ended December 31, 2005 and 2004. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the Authority and present a long-term view of the Authority's finances. Also, the financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and supplementary financial information.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Authority's overall financial status. These statements report information about the Authority, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received or paid. The two government-wide statements report the Authority's net assets and how they have changed. "Net Assets" is the difference between the assets and liabilities. The Net Asset balance is one way to measure the Authority's financial health or position.
- The third statement is the Statement of Cash Flows which shows the change in cash and cash equivalents presenting all activity of the Authority on a cash basis.

The financial statements also include notes that provide additional information that is essential to a full understanding of the data provided in the financial statements. Supplementary information and tables are also provided for information purposes.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Authority, as a whole, and about its activities in a way that helps answer the question of whether the Authority, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Authority's assets and liabilities using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received or paid.

The two statements, mentioned above, report the Authority's net assets and how they have changed. The reader can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Authority, you need to consider additional factors such as changes in the general economy, new DEQ regulations, etc.

Fund Financial Statements

The Authority has only one fund, the Operating Fund, in which all of the Authority's sewer and water activities are accounted. The Operating Fund is a business-type fund, which accounts for activities on a full accrual basis.

FINANCIAL OVERVIEW

The Authority had net assets of \$568,796 at December 31, 2005. This is an increase of \$96,626 from fiscal 2004. The table below summarizes the net assets at December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Assets		
Current assets	<u>\$ 821,200</u>	<u>\$ 725,231</u>
Liabilities		
Current liabilities	93,254	100,933
Long-term liabilities	<u>159,150</u>	<u>152,228</u>
Total liabilities	<u>252,404</u>	<u>253,061</u>
Net Assets		
Restricted for equipment replacement	<u>\$ 568,796</u>	<u>\$ 472,170</u>

Since the operations of the Authority through agreement with the Charter Township, is to break even, the increase was directly related to net assets restricted for equipment replacement.

The following table summarizes the changes in net assets for 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Operating Revenue	\$ 1,060,290	\$ 1,003,239
Operating Expenses	<u>1,060,290</u>	<u>1,003,239</u>
Operating Income	-	-
Non Operating Revenue	<u>96,626</u>	<u>103,067</u>
Change in Net Assets	<u>\$ 96,626</u>	<u>\$ 103,067</u>

The operating expenses increased from 2004 in the amount of \$57,051 or 5.7% of total 2004 operating expenses. Of the increase, \$59,625 was related to water operations while sewer disposal operations had a reduction in expenses (\$2,574). The major increase in expenditures for the water system was the result of increased wages and related fringes for plant operations.

CAPITAL ASSETS

The St. Clair River Sewer and Water Authority was established by the Charter Townships of China and East China to operate the sewer and water plants that provide services to both Charter Townships. The original sewer plant is owned by the Charter Township of East China, and recorded on the records of the Charter Township of East China. The water plant is owned by both Charter Townships (East China and China). The water plant is recorded on the respective Charter Township records based on percentage of ownership.

LONG-TERM DEBT

The long-term debt the Authority consists of an advance from the Charter Township of East China's sewer funds of \$90,318. The amount is to be repaid as funding becomes available. The long-term debt also includes \$68,832 of accumulated sick leave that has vested and is available to the employees of the Authority.

ECONOMIC FACTORS AND NEXT YEARS OPERATIONS

Next years budget has been increased to reflect the inflation and to cover anticipated maintenance. Since billing customers is the responsibility of the Charter Townships, the Authority is again assured of revenues from each Charter Township, based on flow percentage of total. An effort has been made to maintain costs so as not to have excessive increase in costs to the Charter Townships. A continuous review is made of efficiency of operations and the management of water system leakage and sewer system infiltration.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens and other interested parties a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the St. Clair River Sewer and Water Authority, 5111 River Road, East China, Michigan 48054.

BASIC FINANCIAL STATEMENTS

ST. CLAIR RIVER SEWER AND WATER AUTHORITY
St. Clair County, Michigan

STATEMENT OF NET ASSETS
DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current Assets:		
Cash	\$ 416,366	\$ 9,144
Investments	256,190	636,146
Interest receivable	671	389
Due from Charter Township of China	22,548	14,908
Due from Charter Township of East China	95,988	64,485
Prepaid expenses	<u>29,437</u>	<u>159</u>
	<u><u>\$ 821,200</u></u>	<u><u>\$ 725,231</u></u>
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 15,943	\$ 21,204
Accrued salaries and wages	8,501	6,913
Accrued payroll taxes	650	529
Accrued vacation	12,160	16,187
Deposits payable	<u>56,000</u>	<u>56,000</u>
	<u>93,254</u>	<u>100,833</u>
Long-Term Liabilities:		
Advance from East China sewer fund	90,318	90,318
Accrued sick leave	<u>68,832</u>	<u>61,910</u>
	<u>159,150</u>	<u>152,228</u>
 Total Liabilities	 252,404	 253,061
Net Assets:		
Restricted - Equipment Replacement	<u>568,796</u>	<u>472,170</u>
	<u><u>\$ 821,200</u></u>	<u><u>\$ 725,231</u></u>

See Notes to Financial Statements

ST. CLAIR RIVER SEWER AND WATER AUTHORITY**St. Clair County, Michigan****STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Operating Revenues:		
Charges for services -		
Charter Township of East China	\$ 912,401	\$ 876,120
Charter Township of China	147,889	127,119
	<u>1,060,290</u>	<u>1,003,239</u>
Operating Expenses:		
Salaries and wages	508,079	459,559
Fringe benefits	201,451	180,630
Administrative expense	6,500	6,500
Office supplies	7,490	1,961
Operating supplies	54,491	47,395
Utilities	123,394	114,841
Professional service	4,700	15,101
Insurance	22,107	65,831
Sludge removal	28,988	26,832
Repairs and maintenance	71,710	54,074
Equipment rental	20,108	24,621
Other	11,272	5,894
	<u>1,060,290</u>	<u>1,003,239</u>
Operating income	<u>-</u>	<u>-</u>
Non-Operating Revenues (Expenses):		
Service fees for equipment replacement	93,000	93,000
Interest earned-equipment replacement reserve	18,972	7,476
Interest earned-water operating	-	2,591
Sewer plant improvements transferred to East China plant	(15,346)	-
	<u>96,626</u>	<u>103,067</u>
Change in net assets	96,626	103,067
Net assets at beginning of year	<u>472,170</u>	<u>369,103</u>
Net assets at end of year	<u>\$ 568,796</u>	<u>\$ 472,170</u>

See Notes to Financial Statements

ST. CLAIR RIVER SEWER AND WATER AUTHORITY
St. Clair County, Michigan

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Cash Flows From Operating Activities:		
Receipts from Charter Townships	\$ 1,057,122	\$ 967,852
Payments to suppliers	(421,556)	(403,288)
Payments to employees	(503,475)	(462,266)
Payments for employee benefits	(201,451)	(180,630)
Net Cash Used By Operating Activities	<u>(69,360)</u>	<u>(78,332)</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(15,346)	-
Service fees for equipment replacement	93,000	93,000
Advance from sewer fund	-	90,318
Net Cash Provided by Capital and Related Financing Activities	<u>77,654</u>	<u>183,318</u>
Cash Flows From Investing Activities:		
Net changes in investments	379,956	(112,969)
Interest earned	18,972	10,067
Net Cash Provided (Used) by Investing Activities	<u>398,928</u>	<u>(102,902)</u>
Net Increase in cash	407,222	2,084
Cash at beginning of year	<u>9,144</u>	<u>7,060</u>
Cash at end of year	<u><u>\$ 416,366</u></u>	<u><u>\$ 9,144</u></u>
Reconciliation of Operating Income to Net Cash		
Used by Operating Activities:		
Operating income for the year	\$ -	\$ -
Adjustments to reconcile operating income		
to net cash used by operating activities -		
Changes in assets and liabilities -		
Accounts receivable	-	1,304
Interest receivable	(14,407)	(364)
Prepaid expenses	(15,153)	(37)
Due from Charter Townships	(39,945)	(58,106)
Accounts payable	(5,261)	7,678
Accrued liabilities	4,604	(2,708)
Due to Charter Townships	<u>802</u>	<u>(26,099)</u>
Net Cash Used by Operating Activities	<u><u>\$ (69,360)</u></u>	<u><u>\$ (78,332)</u></u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

The accounting methods and procedures adopted by the St. Clair River Sewer and Water Authority conforms to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to Financial Statements are an integral part of the Authority's financial statements:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity –

The St. Clair River Sewer and Water Authority was created by the Charter Townships of China and East China, both located in the County of St. Clair, Michigan. The Authority is operated under a joint five (5) member Board appointed by the Charter Township's Boards, the purpose of which is to operate and maintain a sanitary sewage treatment plant and water plant in accordance with the authorization of Act 233, Public Acts of Michigan, 1955, as amended. The Authority has contracted with the Charter Township of East China to perform the administration, operations, and maintenance of the facilities.

B. Government-Wide and Fund Financial Statements –

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Authority. The St. Clair River Sewer and Water Authority is accounted for in two business-type funds.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the limits of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activity, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

D. Assets, Liabilities and Net Assets –

Cash and Cash Equivalent –

The Authority's cash and cash equivalent are savings accounts, demand deposits, and short-term investments with original maturities of three months or less for the date of acquisition.

Deposits –

The deposits represent money deposited by the Charter Townships of China and East China to provide cash for the operations of the sewer and water systems.

Receivable –

The Authority bills the two Charter Townships based on the percentage of sewer and water usage. It is the responsibility of the Charter Townships to bill individual customers. Based on a reconciliation of estimate payments to final results, the Charter Townships either owe or are owed an amount at the end of the year. These amounts are reported as due from or to the Charter Townships.

Capital Assets –

The St. Clair River Sewer and Water Authority was established to administer and operate the Sewer and Water Utility Plants servicing the Charter Townships of China and East China. No capital assets are owned by the Authority. Ownership is retained by the Charter Townships and recorded in the Charter Township's records.

Estimates –

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reporting amount of assets and liabilities, the disclosures of contingent assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

NOTE 2 - DEPOSITS AND INVESTMENTS:

Authorized Deposits and Investment –

The Charter Township of East China's investment policy on behalf of the Authority and Act 20 PA 1943, as amended, authorizes the deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Act 20 PA 1943 as amended authorizes the Charter Township of East China on behalf of the Authority to invest surplus funds in bonds, securities and other obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.

The Charter Township of East China's investment policy primary objectives, in order of priority, are safety, diversification, liquidity and return on investment. The Charter Township of East China's Treasurer is responsible for the investment program.

Deposits –

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The Authority's deposits consist of checking accounts. At December 31, 2005 and 2004, the carrying amounts and bank balance of the Authority's deposits are \$416,366 and \$9,144, respectively.

Custodial Credit Risk – Deposits, is the risk that in the event of a bank failure, the Authority's deposits or investments may not be returned.

As of December 31, 2005, the bank balance of the Authority's deposits was \$416,366 of which \$105,125 was FDIC insured, with the balance of \$311,241 exposed to credit risk as it was uninsured and uncollateralized.

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

NOTE 2 - DEPOSITS AND INVESTMENTS – (cont'd):

Investments –

The Authority at December 31, 2005 and 2004 held \$256,190 and \$636,146, respectively in a financial investment (pool) that is evidenced by securities that exist in physical or book entry form. The investments are registered with the Securities and Exchange Commission and the fair value of the Authority's portion in the investment pool is the same as the value of the investment pool shares. The investment trust funds have been reported in the financial statements as investments even though the investment trust funds have characteristics of demand deposit accounts in that the Authority may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The reason for reporting as investments is that it is the intent of the Authority to not make regular withdrawals since the funds are part of the Authority's pooled investment program.

Custodial Credit Risk – Investments, is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of a third party. As of December 31, 2005, \$100,000 in investments was held by third-party safekeeping in the Authority's name.

Interest Rate Risk – Investments, is the risk that in the event that the market value of securities in the Authority's portfolio will fail due to changes in the market interest increases. The Authority's attempts to minimize interest rate risk by maintaining liquidity to meet all operating requirements without the need to sell securities prior to maturity and investing operating funds primarily in short term securities and money markets funds.

	Investment Maturities (fair value by years)		
	Fair Value	Less Than 1	1 to 5
U.S. Agency Securities	\$ 100,000	\$ -	\$ 100,000
Investment Trust Funds	156,190	156,190	-

Credit Risk – Investments, is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State laws and the Authority's policy limit the types of investments the Authority can purchase.

As of December 31, 2005, all of the Authority's holdings in investment trust funds of \$156,190 received a rating of AAA by Standard & Poor's and Aaa by Moody's.

Concentration of Credit Risk – Investments, is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. The Authority's investment policy requires diversification by security type but does not place a fixed percentage limit for any one issuer. As of December 31, 2005, the Authority had greater than 5% of its total investment portfolio concentrated as follows:

Investment Type	Issuer	% of Investments
U.S. Agency Securities	Federal Home Loan Bank	33.5%
Investment Trust Funds	Chase Bank	17.3%
Investment Trust Funds	Comerica	43.7%

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

NOTE 3 - SEWAGE DISPOSAL AGREEMENT:

The Charter Township of East China owns the sewage disposal plant. However, along with the Charter Township of China has contracted with the St. Clair River Sewer and Water Authority for the operations, maintenance, and administration of the sewage disposal plant. The total cost of the operations and administration of the sewage disposal plant is billed to the two Charter Townships based on reserved capacity and flow applicable to each Charter Township after reimbursement from the Authority water fund.

NOTE 4 - WATER FILTRATION AGREEMENT:

In 1999, the Charter Townships of China and East China entered into an agreement with St. Clair County to acquire and construct a water filtration plant. The County has completed construction on the plant and is leasing it to the Charter Townships. The Charter Townships have contracted with the St. Clair River Sewer and Water Authority for the operations, maintenance and administration of the plant and related distribution lines. The total cost of operations, maintenance and administration of the water filtration system is billed to the Charter Townships based on water flow and distribution line benefit.

NOTE 5 - DUE FROM CHARTER TOWNSHIPS:

The following is a schedule of the amount due from the Charter Townships at December 31, 2005:

	<u>Departments</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Charter Township of China			
December 2005 billing	\$ 6,204	\$ 6,043	\$ 12,247
Annual settlement	<u>5,329</u>	<u>4,972</u>	<u>10,301</u>
	<u>\$ 11,533</u>	<u>\$ 11,015</u>	<u>\$ 22,548</u>
Charter Township of East China			
Annual settlement	\$ 32,387	\$ (55,282)	\$ (22,895)
Other	<u>-</u>	<u>118,883</u>	<u>118,883</u>
	<u>\$ 32,387</u>	<u>\$ 63,601</u>	<u>\$ 95,988</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

NOTE 6 - DEPOSITS FOR OPERATIONS:

The deposit balance represents money deposited by the Charter Townships of East China and China to provide cash for operations of the sewer and water system. The deposit balance per Charter Township is as follows:

<u>Sewer Department</u>	December 31, 2005	December 31, 2004
Charter Township of East China	\$ 32,900	\$ 32,900
Charter Township of China	<u>2,100</u>	<u>2,100</u>
	<u>\$ 35,000</u>	<u>\$ 35,000</u>

<u>Water Department</u>	December 31, 2005	December 31, 2004
Charter Township of East China	\$ 16,000	\$ 16,000
Charter Township of China	<u>5,000</u>	<u>5,000</u>
	<u>\$ 21,000</u>	<u>\$ 21,000</u>

NOTE 7 - RESTRICTED FOR EQUIPMENT REPLACEMENT:

The Charter Townships have elected to have a portion of the fees charged to them to be restricted for equipment replacement. The following is a summary of the change in the restricted balances for the year ended December 31, 2005:

	<u>Sewer Department</u>	<u>Water Department</u>
Restricted balance at December 31, 2004	\$ 414,740	\$ 57,430
Service fees for equipment replacement	48,000	45,000
Interest earned	<u>13,465</u>	<u>5,507</u>
	476,205	107,937
Sewer plant improvements transferred to East China plant	(<u>15,346</u>)	<u>-</u>
Restricted balance at December 31, 2005	<u>\$ 460,859</u>	<u>\$ 107,937</u>

SUPPLEMENTARY FINANCIAL INFORMATION

ST. CLAIR RIVER SEWER AND WATER AUTHORITY**St. Clair County, Michigan****SEWER DEPARTMENT
STATEMENT OF NET ASSETS
DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
ASSETS		
Current Assets:		
Cash	\$ 233,054	\$ 5,504
Investments	256,190	453,547
Interest receivable	671	389
Due from -		
Charter Township of China	11,533	13,062
Charter Township of East China	32,387	41,282
Prepaid Expenses	14,466	59
	<u>\$ 548,301</u>	<u>\$ 513,843</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 8,559	\$ 8,852
Accrued salaries and wages	4,342	3,720
Accrued payroll taxes	332	285
Accrued vacation	9,078	7,937
Deposits payable	35,000	35,000
Due to water fund	12,389	11,587
	<u>69,700</u>	<u>67,381</u>
Long-Term Liabilities:		
Accrued sick leave	<u>17,742</u>	<u>31,722</u>
 Total Liabilities	 87,442	 99,103
Net Assets:		
Restricted - Equipment replacement	<u>460,859</u>	<u>414,740</u>
	<u>\$ 548,301</u>	<u>\$ 513,843</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY**St. Clair County, Michigan****SEWER DEPARTMENT****STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Operating Revenues:		
Charges for services -		
Charter Township of East China	\$ 397,536	\$ 406,975
Charter Township of China	75,390	71,311
Authority Water Fund	50,664	47,878
Total Operating Revenues	<u>523,590</u>	<u>526,164</u>
Operating Expenses:		
Salaries and wages	231,200	250,966
Fringe benefits	105,122	106,079
Administrative expense	6,500	6,500
Office supplies	3,244	629
Operating supplies	30,190	24,357
Utilities	62,947	57,639
Professional service	2,350	2,083
Insurance	10,616	20,878
Sludge removal	28,988	26,832
Repairs and maintenance	33,683	23,230
Equipment rental	1,422	3,398
Other	7,328	3,573
Total Operating Expenses	<u>523,590</u>	<u>526,164</u>
Operating income	<u>-</u>	<u>-</u>
Non-Operating Revenues (Expenses):		
Service fees for equipment replacement	48,000	48,000
Interest earned-equipment replacement	13,465	7,476
Equipment and plant improvements transferred to Charter Township	(15,346)	-
Total Non-Operating Revenues (Expenses)	<u>46,119</u>	<u>55,476</u>
Change in net assets	46,119	55,476
Net assets at beginning of year	<u>414,740</u>	<u>359,264</u>
Net assets at end of year	<u>\$ 460,859</u>	<u>\$ 414,740</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

St. Clair County, Michigan

SEWER DEPARTMENT

STATEMENT OF CHANGES IN CASH FLOW

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Cash Flows From Operating Activities:		
Receipts from Charter Townships	\$ 519,325	\$ 456,982
Receipts from water fund	802	511
Payments to suppliers	(187,561)	(166,577)
Payments to employees	(243,370)	(247,539)
Payments for employee benefits	(105,122)	(106,079)
Net Cash Used By Operating Activities	<u>(15,926)</u>	<u>(62,702)</u>
Cash Flows From Capital and Related Financing Activities:		
Equipment and plant improvements	(15,346)	-
Service fees for equipment replacement	48,000	48,000
Net Cash Provided by Capital and Related Financing Activities	<u>32,654</u>	<u>48,000</u>
Cash Flows From Investing Activities:		
Net changes in investments	197,357	9,409
Interest earned	13,465	7,476
Net Cash Provided by Investing Activities	<u>210,822</u>	<u>16,885</u>
Net Increase in Cash	227,550	2,183
Cash at beginning of year	<u>5,504</u>	<u>3,321</u>
Cash at end of year	<u><u>\$ 233,054</u></u>	<u><u>\$ 5,504</u></u>
Reconciliation of Operating Income to Net Cash Used By Operating Activities:		
Operating income for the year	\$ -	\$ -
Adjustments to reconcile operating income to net cash provided by operating activities -		
Changes in assets and liabilities -		
Due from Charter Townships	10,424	(42,398)
Interest Receivable and other	(14,689)	(364)
Accounts payables	(293)	2,542
Accrued liabilities	(12,170)	3,427
Due to other fund	802	(511)
Due to Charter Townships	-	(25,398)
Net Cash Used by Operating Activities	<u><u>\$(15,926)</u></u>	<u><u>\$(62,702)</u></u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

St. Clair County, Michigan

SCHEDULE OF CHARGES FOR SEWER SERVICES TO CHARTER TOWNSHIPS

(UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2005

FLOW APPORTIONMENT OF SEWER NET OPERATING EXPENSES

	Annual Sewer Flow (A)		
	Total	Residential and Commercial	Township Percentage
Charter Township Of China:			
Belle River Edison Plant (metered sewer)	2,292 gal		
Continental Coating (metered sewer)	1,089	1,089 gal	
Residential and Commercial (B)	11,019	11,019	7.04%
	14,400 gal	12,108 gal	
Water Plant			
Reject water into plant	22,124 gal		
Charter Township of East China:			
St. Clair Edison Plant (metered sewer)	22,557 gal		
Residential and Commercial (balance of flow (C))	159,903	159,903 gal	92.96%
	182,460 gal		
Total Metered Flow at Sewer Plant	218,984 gal	172,011 gal	100.00%

Notes:

- (A) Flow is in 1,000 gallons.
- (B) Based on water flow of 10,298 gallons increased by 7.0% for seepage.
- (C) Represents balance after Charter Township of China, St. Clair Edison Plant and Water Plant flows are subtracted from total metered flow at Sewer Plant.

DOLLAR APPORTIONMENT

	Total	Charter Township of China	Charter Township of East China
Total Expenses to be Apportioned:			
Operation and maintenance expenses	\$ 523,589		
Add - restrictions for equipment replacement	48,000		
Less - sewer usage by water plant	(50,664)		
Total Expenses to be Apportioned	\$ 520,925		
Township Portion of Expenditures:			
Total expenditures to be apportioned	\$ 520,925		
Less - charges for sewer services to Edison plants based on reserved capacity, not flow, (77,927,500 gal x \$2.85/thousand gallons)	222,093	\$ 57,734	\$ 164,359
Balance apportioned to Townships based on 7.04% and 92.96%, respectively	298,832	21,035	277,797
Total Sewer Service Charges	520,925	78,769	442,156
Less - 2005 billings	(483,209)	(73,440)	(409,769)
Amount due from Charter Townships	\$ 37,716	\$ 5,329	\$ 32,387

ST. CLAIR RIVER SEWER AND WATER AUTHORITY**St. Clair County, Michigan****WATER DEPARTMENT
STATEMENT OF NET ASSETS
DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash	\$ 183,312	\$ 3,640
Investments	-	182,599
Due from sewer fund	12,389	11,587
Due from -		
Charter Township of China	11,015	1,846
Charter Township of East China	63,601	23,203
Prepaid expenses	14,971	100
	<u>\$ 285,288</u>	<u>\$ 222,975</u>
LIABILITIES AND FUND EQUITY		
Current Liabilities:		
Accounts payable	\$ 7,384	\$ 12,352
Accrued salaries and wages	4,159	3,193
Accrued Payroll Taxes	318	244
Accrued vacation	3,082	8,250
Deposits payable	21,000	21,000
	<u>35,943</u>	<u>45,039</u>
Long-Term Liabilities:		
Advance from East China sewer fund	90,318	90,318
Accrued sick leave payable	51,090	30,188
	<u>141,408</u>	<u>120,506</u>
 Total Liabilities	 177,351	 165,545
Net Assets:		
Restricted - Equipment Replacement	<u>107,937</u>	<u>57,430</u>
	<u>\$ 285,288</u>	<u>\$ 222,975</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY**St. Clair County, Michigan****WATER DEPARTMENT****STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIODS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
Operating Revenues:		
Charges for services (water usage) -		
Charter Township of East China	\$ 458,383	\$ 391,984
Charter Township of China	56,949	34,549
	<u>515,332</u>	<u>426,533</u>
Charges for services (water distribution lines) -		
Charter Township of East China	56,482	77,161
Charter Township of China	15,550	21,259
	<u>72,032</u>	<u>98,420</u>
Total Operating Revenue	<u>587,364</u>	<u>524,953</u>
Operating Expenses:		
Plant -		
Salaries and wages	244,429	171,666
Fringe benefits	93,842	71,726
Office supplies	4,246	1,332
Operating supplies	19,520	19,359
Professional services	2,350	13,018
Utilities	54,225	51,227
Insurance	10,130	23,337
Repairs and maintenance	31,429	23,049
Equipment rental	1,231	1,795
Sewer Plant processing of flow back	50,664	47,878
Other	3,266	2,146
	<u>515,332</u>	<u>426,533</u>
Distribution Lines -		
Salaries and wages	32,450	36,927
Fringe benefits	2,487	2,825
Supplies	4,781	3,679
Utilities	6,222	5,975
Insurance	1,361	21,616
Repairs and maintenance	6,598	7,795
Equipment rental	17,455	19,428
Other	678	175
	<u>72,032</u>	<u>98,420</u>
Total Operating Expenses	<u>587,364</u>	<u>524,953</u>
Total Operating Income	<u>-</u>	<u>-</u>
Non-Operating Revenues:		
Service fees for equipment replacement	45,000	45,000
Interest earned- equipment replacement	5,507	2,591
Total Non-Operating Revenues	<u>50,507</u>	<u>47,591</u>
Change in net assets	50,507	47,591
Net assets at beginning of year	<u>57,430</u>	<u>9,839</u>
Net assets at end of year	<u>\$ 107,937</u>	<u>\$ 57,430</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

St. Clair County, Michigan

WATER DEPARTMENT

STATEMENT OF CHANGES IN CASH FLOWS FOR THE PERIOD ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Cash Flows From Operating Activities:		
Receipts from Charter Townships	\$ 537,797	\$ 510,870
Receipts from sewer fund	(802)	(511)
Payments to suppliers	(233,995)	(236,711)
Payments to employees	(260,105)	(214,727)
Payments for employee benefits	(96,329)	(74,551)
Net Cash Used By Operating Activities	(53,434)	(15,630)
Cash Flows From Capital and Related Financing Activities:		
Service fee for equipment replacement	45,000	45,000
Advance from sewer fund	-	90,318
Net Cash Provided by Capital and Related Financing Activities	45,000	135,318
Cash Flows From Investing Activities:		
Net change in investment	182,599	(122,378)
Interest earned	5,507	2,591
Net Cash Provided (Used) by Investing Activities	188,106	(119,787)
Net Increase (Decrease) in Cash	179,672	(99)
Cash at beginning of year	3,640	3,739
Cash at end of year	\$ 183,312	\$ 3,640
Reconciliation of Operating Income to Net Cash Used By Operating Activities:		
Operating loss for the year	\$ -	\$ -
Adjustments to reconcile operating loss to net cash used by operating activities -		
Changes in assets and liabilities -		
Accounts receivable	-	1,304
Prepaid expenses	(14,871)	(37)
Due from Charter Township of East China	(40,398)	(23,202)
Due from Charter Township of China	(9,169)	8,005
Due from other fund	(802)	(511)
Accounts payable	(4,968)	5,136
Accrued liabilities	16,774	(6,135)
Due to Charter Township of East China	-	(190)
Net Cash Used by Operating Activities	\$(53,434)	\$(15,630)

ST. CLAIR RIVER SEWER AND WATER AUTHORITY
St. Clair County, Michigan

SCHEDULE OF CHARGES FOR WATER SERVICES TO CHARTER TOWNSHIPS
(UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2005

FLOW APPORTIONMENT OF WATER PLANT NET OPERATING EXPENSES

		<u>Water Flow</u>	<u>Township Percentage</u>
Total water flow from plant		173,130 gal	100.0%
Less flow to:			
China Township residential and commercial customers	13,845 gal		
Belle River Edison Plant	<u>5,294</u>	<u>19,139</u>	<u>11.1</u>
Water flow for Charter Township of East China		<u><u>153,991 gal</u></u>	<u><u>88.90%</u></u>

DOLLAR APPORTIONMENT

	<u>Total</u>	<u>Charter Township of China</u>	<u>Charter Township of East China</u>
Total Expenses to be Apportioned:			
Total Expenses to be Apportioned	\$ 515,332		
Add restricted for replacement-			
modules/ fibers	25,000		
other equipment	<u>20,000</u>		
	560,332	\$ 61,944	\$ 498,388
Less - 2005 billings	<u>(576,420)</u>	<u>(49,572)</u>	<u>(526,848)</u>
Due from (to) Charter Townships	<u><u>\$ (16,088)</u></u>	<u><u>\$ 12,372</u></u>	<u><u>\$ (28,460)</u></u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY
St. Clair County, Michigan

**SCHEDULE OF CHARGES FOR OPERATION AND MAINTENANCE
OF WATER DISTRIBUTION LINES
(UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2005**

MILEAGE APPORTIONMENT BASED ON SYSTEM BENEFIT

	Operations and Maintenance Distribution				
	China		East China		
	Number of Miles	Percentage of total	Number of Miles	Percentage of total	Number of Miles
Charter Township of China:					
Joint Transmission	3.0	80%	2.4	20%	0.6
China Only	2.5	100%	2.5	0%	0.0
	<u>5.5</u>		<u>4.9</u>		<u>0.6</u>
Charter Township of East China:					
Joint Transmission	9.5	20%	1.9	80%	7.6
East China Only	16.5		0.0	100%	16.5
	<u>26.0</u>		<u>1.9</u>		<u>24.1</u>
Totals	<u>31.5 miles</u>		<u>6.8 miles</u>		<u>24.7 miles</u>

Charter Township of China	6.8 miles	21.6%
Charter Township of East China	24.7 miles	78.4%
	<u>31.5 miles</u>	<u>100.0%</u>

SUMMARY DOLLAR APPORTIONMENT

		China 21.60%	East China 78.40%
Total Expense	\$ 72,032	\$ 15,550	\$ 56,482
Paid in 2005	<u>106,254</u>	<u>22,950</u>	<u>83,304</u>
Due to Charter Townships	<u>\$(34,222)</u>	<u>\$(7,400)</u>	<u>\$(26,822)</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the St. Clair River Sewer and
Water Authority Board
St. Clair County, Michigan

We have audited the financial statements of The St. Clair River Sewer and Water Authority as of and for the year ended December 31, 2005, and have issued our report thereon, dated April 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.


Internal Control over Financial Reporting

In planning and performing our audit, we considered The St. Clair River Sewer and Water Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the St. Clair River Sewer and Water Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of the St. Clair River Sewer and Water Authority, and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

April 7, 2006